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Brazil

Post:

Brasilia

Oilseeds and Products Update

Despite the Slow Planting Start, Soybean Area Forecast to Reach Record

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Report Highlights:

Post forecasts 2017/18 production at 107 million metric tons (mmt), a 6.1 percent reduction compared to the previous season. The drop in the production outlook is due to a return to average yields, after an almost perfect season in 2016/17. Soybean exports for Marketing Year (MY) 2017/18 are forecast at 64 mmt as a result of strong demand by China. For the current MY 2016/17, Brazil exported 56 mmt in the first 7 months of the MY, about 19 percent higher compared to the previous season. Post forecasts exports to reach 65 mmt, a record.

Production, Supply, and Demand Statistics:

Oilseed, Soybean (Local) Market Begin Year Brazil	2015/2016		2016/2017		2017/2018	
	Feb-16		Feb-17		Feb-18	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	33300	33300	34000	34000	34700	34700
Area Harvested	33300	33300	33900	34000	34700	34700
Beginning Stocks	650	650	1805	1805	5540	4955
Production	96500	96500	114000	114000	107000	107000
MY Imports	362	362	250	250	200	250
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from EU	0	0	0	0	0	0
Total Supply	97512	97512	116055	116055	112740	112205
MY Exports	52100	52100	65000	65000	64000	64000
MY Exp. to EU	6000	6000	6200	6200	6200	6200
Crush	40125	40125	41850	42500	42000	43500
Food Use Dom. Cons.	0	0	0	0	0	0
Feed Waste Dom. Cons.	3482	3482	3665	3600	3740	3650
Total Dom. Cons.	43607	43607	45515	46100	45740	47150
Ending Stocks	1805	1805	5540	4955	3000	1055
Total Distribution	97512	97512	116055	116055	112740	112205
CY Imports	382	382	250	250	200	200
CY Imp. from U.S.	0	0	0	0	0	0
CY Exports	51582	51582	65000	64000	64000	62500
CY Exp. to U.S.	0	0	0	0	0	0
Yield	2.8979	2.8979	3.3628	3.3529	3.0836	3.0836
(1000 HA) ,(1000 MT) ,(MT/HA)						

2018/17 Soybean Plantings Begins:

On the week of September 25, the areas of the center-west and southern Brazil experienced the first significant rains of the 2017/18 growing season. For many, the soybean growing season for this year official began.

Post forecasts planted area for the 2017/18 season at 34,700 million hectares (ha), a 2.4 percent increase compared to the previous growing season. Soybeans continue to be the best option for a first crop for farmers in Brazil due to the profitability and the market demand, both domestically and internationally. The lower cost of production forecasted for 2017/18 compared to the previous year is also expected to support the higher production area for Brazil.

Production in Brazil is expected to drop by 6.1 percent, to 107 million metric tons (mmt), compared to the previous season. The reason is that post is currently using average yields as part of its forecasts, which are much lower than the previous record season. The 2016/17 soybean season in Brazil was almost perfect in terms of yields and production. The low incidence of pests along the crop cycle, good rainfall distribution in most of the country, and increased investment in technology, contributed to record yields by a large margin.

Cost of production in Brazil for the 2017/18 season is expected to be lower compared to last year as a result of the Brazilian Real appreciation at the time producers contracted its input needs and higher stocks for fertilizers and herbicides at Brazilian ports. The cost of those inputs for the 2017/18 season were about 10 and 6 percent lower, respectively, compared to the last season. In Mato Grosso for example, the main producing state in Brazil, the cost of production is expected to be 6.8 percent lower compare to last year. It's estimated that prices for fertilizers and herbicides in Mato Grosso dropped by 13.5 and 11.5 percent, respectively.

Appreciation of the Brazilian Real and Large Crops Put Downward Pressure on Prices:

Despite the lower cost of production, the current market price levels in Brazil point to a decline in producer's gross income. For the 2017/18 season, it is forecast that gross income can decline by up to 13 percent compared to the last season due to lower prices. Even with this negative scenario, producers are forecast to still be able to be above the breakeven point. Since September of last year, domestic prices dropped by 15 percent due to lower global prices, high ending stocks globally, as well as the appreciation of the Brazilian Real. In May 2016, the Brazilian Real was trading at 3.53 to the U.S. Dollar. Today, the Brazilian Real is trading at approximately 3.17 to the U.S. Dollar.

Table 1: Average Monthly Soybean Prices in Paraná State (Prices* in R\$ per 60 kg)

	2014	2015	2016	2017	% Change
January	67.43	59.29	78.46	71.57	-9%
February	66.87	60.2	73.32	68.77	-6%
March	68.78	64.35	69.95	65.06	-7%
April	67.89	63	74.12	61.55	-17%
May	67.81	62.09	82.28	64.06	-22%
June	67.54	62.96	90.59	63.59	-30%
July	63.72	67.83	82.83	66.23	-20%
August	63.45	72.17	77.57	63.86	-18%
September	58.94	76.62	76.13	64.97	-15%
October	59.58	78.13	73.96		
November	63.01	75.48	74.72		
December	62.42	77.07	75.06		

Source: Center for Advanced Studies in Applied Economics (CEPEA)

TRADE:

2017/2018 Outlook:

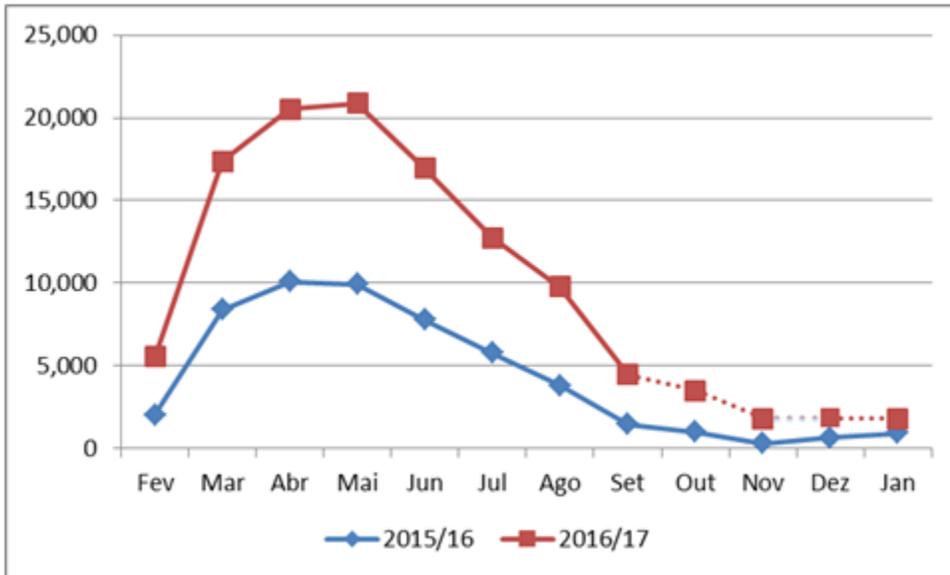
Soybean exports for Marketing Year (MY) 2017/18 (February 2018 – January 2019) are forecast at 64 mmt, about 1.5 percent lower compared to the previous MY. The reduction is based on lower exportable supplies due to lower production and higher domestic consumption. The forecast is also based on strong expected demand by China.

2016/2017 Forecast:

Post forecasts soybean exports for MY 2016/17 at 65 mmt, a record. The increase is due to the higher exportable supplies, strong demand by China, and competitive export prices.

Brazilian soybean producers have forward contracted the 2016/17 crop for exports at a much slower rate compared to the last couple of seasons waiting for better prices; however, the pace picked up in the last couple of months. In the first 7 months of the marketing year, Brazil exported 56 mmt, about 19 percent higher compared to the previous season. The pace of soybean exports will start to slow down as it starts to compete with corn exports, but additional port capacity in Brazilian ports should allow Brazil to continue to meet international demand.

Graph 1 – Monthly Pace of Brazilian Soybean Exports (in MMT)



Source: Global Trade Atlas
Marketing Year 2016-17 runs from February 2017-January 2018

CONSUMPTION:

2017/2018 Outlook:

Post forecasts 43.5 mmt of soybeans destined for processing (crushing) in 2017/18 MY based on higher biodiesel blending mandates, lower commodity prices, and a slight recovery in the Brazilian economy.

The biodiesel production in Brazil will be the main driver of the higher crushing needs for next year as the industry expects higher blending mandates to be implemented. According to industry, the Brazilian Government is expected to approve biodiesel blending mandate of 10 percent by next March. This decision would potentially increase biodiesel production by at least 25 percent compared to 2016/17.

Consumption of soybean meal is also expected to increase compared to last year. The price of soybean meal domestically has dropped by 35 percent per metric ton between June 2016-June 2017. This helped reduce production costs in the animal products sectors, but also contributed to lower inflation in Brazil, which supports the increase in consumption for animal protein in the next year.

2016/2017 Forecast:

Post forecasts 42.5 mmt of soybeans destined for processing in the 2016/17 MY. The forecast is higher compared to 2015/16 MY as a result of higher domestic consumption for soybean meal as well as soybean oil. The higher consumption is due to the recovery of the Brazilian economy and new biodiesel mandates in Brazil, currently at 8 percent since July 1st.

The export market continues to contribute to the higher crushing needs in Brazil. Exports for soybean meal is forecast to reach record levels, especially to markets in Asia (except China) which currently holds about 41 percent of total Brazilian exports, second after the European Union with about 52 percent of exports.